

## Message Text

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ORIGIN EUR-12

INFO OCT-01 EA-07 ISO-00 SIG-01 AGRE-00 CEA-01 CIAE-00  
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ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 FEA-01  
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DRAFTED BY EUR/RPE:ADSENS:VF

APPROVED BY EB/TCA: RKBANK

-----050435Z 037115 /61

P R 050055Z MAR 77

FM SECSTATE WASHDC

TO AMEMBASSY LONDON PRIORITY

AMEMBASSY BRUSSELS PRIORITY

AMEMBASSY COPENHAGEN PRIORITY

AMEMBASSY HELSINKI PRIORITY

AMEMBASSY ATHENS PRIORITY

AMEMBASSY ROME PRIORITY

AMEMBASSY TOKYO PRIORITY

AMEMBASSY THE HAGUE PRIORITY

AMEMBASSY OSLO PRIORITY

AMEMBASSY STOCKHOLM PRIORITY

INFO AMCONSUL HAMBURG

USMISSION OECD PARIS

USMISSION EC BRUSSELS

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E.O. 11652: N/A

TAGS: ETRD, EWWT

SUBJECT: OIL CARGO PREFERENCES

1. FOLLOWING AIDE-MEMOIRE PRESENTED TO ASSISTANT SECRETARY

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KATZ BY REPRESENTATIVES OF COUNTRIES CONCERNED TODAY.

"THE GOVERNMENTS OF BELGIUM, DENMARK, FINLAND, GREECE,  
ITALY, JAPAN, THE NETHERLANDS, NORWAY, SWEDEN, AND THE  
UNITED KINGDOM HAVE NOTED THE INTRODUCTIONS OF A NUMBER  
OF OIL CARGO RESERVATION MEASURES IN THE HOUSE AND SENATE,  
INCLUDING THE HOUSE BILL HR 1037 INTRODUCED BY CONGRESSMAN

JOHN M. MURPHY WHICH WOULD ULTIMATELY RESERVE 30 PERCENT OF UNITED STATES OIL IMPORTS TO US FLAG TANKERS. THESE GOVERNMENTS VIEW THIS PROPOSED LEGISLATION WITH CONSIDERABLE CONCERN, FOR THE FOLLOWING REASONS:

A. THE ADOPTION OF PROTECTIONIST CARGO RESERVATION POLICIES BY THE US WOULD BE INCONSISTENT WITH THE COMMITMENT OF THE US TO POLICIES OF TRADE LIBERALISATION, AS STATED IN PARTICULAR IN THE DECLARATION OF THE MINISTERIAL MEETING OF GATT IN SEPTEMBER 1973, AND IN THE TRADE ACT OF 1974.

B. US UNILATERAL ADOPTION OF CARGO RESERVATION FOR PURELY COMMERCIAL CARGO WOULD GIVE SIGNIFICANT IMPETUS TO THE ADOPTION OF CARGO RESERVATION POLICIES, WHETHER FOR EXPORTS OR IMPORTS, BY OTHER NATIONS, NOT ONLY FOR OIL BUT ALSO FOR OTHER TYPES OF CARGO. THE IMPACT ON INTERNATIONAL SHIPPING AND TRADE OF WIDESPREAD ADOPTION OF CARGO PREFERENCE MEASURES WOULD BE VERY SERIOUS.

C. THE INCREASED TRANSPORT COSTS OF OIL RESULTING FROM THE MANDATORY GREATER USE OF US FLAG TANKERS ARE HARD TO QUANTIFY BUT WOULD BE VERY SUBSTANTIAL AND REPRESENT AN UNNECESSARY WASTE OF RESOURCES. THIS WOULD BE UNDESIRABLE AT A TIME WHEN THE CONTROL OF INFLATION IS A MAJOR GOAL OF THE US AND ITS TRADING PARTNERS.

D. BY STIMULATING US TANKER CONSTRUCTION AND REDUCING THE MARKET AVAILABLE TO NON-US FLAG SHIPS, OIL CARGO RESER-

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VATION WOULD ADD SIGNIFICANTLY TO SURPLUS IN WORLD TANKER CAPACITY WHICH PRESENTLY STANDS AT SOME 40 MILLION DEAD-WEIGHT TONS AND IS EXPECTED TO PERSIST UNTIL THE 1980S. THUS IT COULD ONLY ADD TO THE CURRENT SERIOUS PROBLEMS FACED BY WORLD SHIPPING AND SHIPBUILDING. THE CONSEQUENCES COULD GO WIDER THAN THE TANKER SECTOR, SINCE THERE COULD BE SPILLOVER EFFECTS IN THE DRY BULK SECTOR AS WELL.

E. THE STRATEGIC BENEFITS WHICH ARE CLAIMED FOR OIL CARGO RESERVATION ARE DOUBTFUL. A LARGE PROPORTION OF US OIL IMPORTS IS CARRIED IN VESSELS OF ALLIED AND FRIENDLY COUNTRIES. THE ADOPTION OF CARGO RESERVATION BY THE US WOULD IN FACT BE DETRIMENTAL TO THE SHIPPING INTERESTS OF THESE COUNTRIES BOTH THROUGH ITS DIRECT IMPACT AND THROUGH THE STIMULUS IT WOULD GIVE TO THE ADOPTION OF PROTECTIONIST POLICIES ELSEWHERE. IT SHOULD ALSO BE NOTED THAT OIL IMPORT CARGO RESERVATION WOULD MAKE LITTLE DIFFERENCE TO THE SECURITY OF US OIL SUPPLIES IN THE EVENT OF A RENEWED EMBARGO.

F. THE ECONOMIC JUSTIFICATION FOR OIL IMPORT CARGO RESERVATION IS HIGHLY QUESTIONABLE. US FLAG TANKERS APPEAR TO HAVE IMPROVED SOMEWHAT THEIR TONNAGE SHARE OF US OIL IMPORTS IN RECENT YEARS AND, TO JUDGE FROM THE AMOUNT OF US TANKER TONNAGE CURRENTLY ON ORDER, THERE SEEMS NO REASON WHY THE IMPROVEMENT SHOULD NOT BE MAINTAINED. MOREOVER, US FLAG TANKERS ARE LIKELY TO BENEFIT FROM THE TRANSPORTATION OF ALASKAN OIL.

G. OIL CARGO RESERVATION WOULD NOT REDUCE THE RISK OF OIL SPILLS IN US WATERS, AS THE FOREIGN-FLAG TONNAGE THAT WOULD BE REPLACED BY US FLAG TANKERS WOULD PROBABLY INCLUDE A HIGH PROPORTION OF THE MOST MODERN AND SAFEST FOREIGN TANKERS."

2. IN RESPONSE TO PARALLEL ORAL PRESENTATION BY NORWEGIAN AMBASSADOR, KATZ NOTED  
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THAT US WILL GIVE FULL CONSIDERATION TO ARGUMENTS MADE IN PREPARATION OF ADMINISTRATION POSITION FOR FORTHCOMING HEARINGS. HE ADDED THAT IN DEPARTMENT'S VIEW FIRST TWO POINTS RAISED IN AID-MEMOIRE PARTICULARLY STRONG ARGUMENTS AGAINST CARGO PREFERENCES, NOTING ADVERSE EFFECTS OF CARGO PREFERENCES ON COMPETITION SIMILAR TO PRESENT SITUATION IN CIVIL AVIATION FIELD.

3. SPEAKING FOR GROUP, UK AMBASSADOR RAMSBOTHAM NOTED CONCERN ABOUT OIL SPILL CONTROLS BEING CONSIDERED BY CONGRESS AND STRESSED IMPORTANCE ATTACHED TO APPROACHING THIS PROBLEM FROM MULTILATERAL VIEWPOINT, RATHER THAN SERIES OF UNILATERAL -- AND INHERENTLY CONFLICTING -- MOVES.

4. IN REGARD TO CARGO PREFERENCE, RAMSBOTHAM EXPLAINED THAT SPREAD OF PROTECTIONISM NOT LIMITED TO EMULATION BY COUNTRIES IN PROCESS OF BUILDING FLEETS, AND MIGHT HAVE TO BECOME POLICY OF MAJOR SHIPPING COUNTRIES.

5. RAMSBOTHAM NOTED SOME GOVERNMENTS MAY INFORM RESPECTIVE PUBLICS THAT CONCERNS ABOUT OIL CARGO PREFERENCE LEGISLATION HAD BEEN RAISED WITH DEPARTMENT.

6. FOR LONDON: WE LEARNED CALLAGHAN HAS BEEN BRIEFED ON CARGO PREFERENCES AND MAY RAISE ISSUE IN COURSE OF US VISIT.

7. FOR HELSINKI: FINNISH REP IN SEPARATE CONVERSATION WITH DEPARTMENT OFFICER ALSO MADE POINT CARGO PREFERENCES WOULD CONTRADICT PROVISIONS OF US/FINNISH FCN TREATY OF 1934.

CHRISTOPHE

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## Message Attributes

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Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009